CONIFEX

CONIFEX TIMBER INC.

2018 MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of March 26, 2019

This Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations of Conifex Timber Inc. (the "Company", "Conifex", "us", "we", or "our"), on a consolidated basis, for the fiscal year ended December 31, 2018 relative to 2017. This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2018 and notes thereon, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on SEDAR at www.sedar.com.

In this MD&A, reference is made to "EBITDA" and "adjusted EBITDA". EBITDA represents earnings before finance costs, taxes, depreciation and amortization. Adjusted EBITDA is calculated to exclude unusual items or items that are not ongoing and do not reflect ongoing operations of the Company. Adjusted EBITDA excludes foreign exchange gains or losses on long-term debt. The Company discloses EBITDA and adjusted EBITDA as it is a measure used by analysts and by Conifex's management to evaluate the Company's performance. As EBITDA and adjusted EBITDA are non-GAAP measures, they may not be comparable to EBITDA and adjusted EBITDA calculated by others. In addition, EBITDA and adjusted EBITDA are not substitutes for net earnings and cash flow, therefore readers should consider earnings in evaluating the Company's performance.

In this MD&A, all references to "$" are to Canadian dollars and references to "US$" are to United States dollars.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information that reflects our current views and/or expectations with respect to our beliefs, assumptions, estimates and forecasts about our business and the industries and markets in which we operate. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: the growth and future prospects of our business; our results of operations and performance; the use and availability of credit facilities or proceeds therefrom; our level of liquidity and our ability to service our debt; our perceptions of the industries and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; our ability to supply our manufacturing operations with wood fibre and the cost of wood fibre; our expectation for market volatility associated with the softwood lumber dispute with the US; that we could be negatively impacted by the imposition of duties or other protective measures on our products, such as antidumping duties or countervailing duties on softwood lumber; our expectations for US dollar benchmark prices; potential acquisition of businesses or assets or commitments to additional capital projects; benefits that may accrue to the Company as a result of certain capital expenditure programs; continued positive relations with Aboriginal groups; the development of a longer-term capital plan and the expected benefits therefrom; demand and prices for our products; our ability to develop new revenue streams; our expectations about discussions concerning the renewal of our collective labour agreement; our expectations about the IFRS amendments and the anticipated benefits, cost and timing of operations of our mills in the US South.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements may include, but are not limited to, our future debt levels; that we will complete our projects in the expected timeframes and as budged; that we will effectively market our products; that capital expenditure levels will be consistent with those estimated by our management that *the US housing market will continue to improve; that there will be no unforeseen disruptions affecting the operation of our power generation plant and that we will be able to continue to deliver power therefrom; our ability to obtain financing on acceptable terms, or at all; that interest and foreign exchange rates will not vary materially from current levels; the general health of the capital markets and the lumber industry; and the general stability of the economic environments within the countries in which we operate or do business.*

Persons reading this MD&A are cautioned that statements comprising forward-looking information are only predictions, and that our actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other similar factors; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials, including log costs; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); and other risk factors detailed in our Annual Information Form dated March 5, 2018 available on SEDAR at www.sedar.com and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable securities laws.

Market and industry data contained in this MD&A is based upon information, surveys or studies conducted by independent third parties and independent industry or general publications and the Company's knowledge of, and experience in, the markets in which it operates. The Company has no reason to believe that such information is false or misleading in any material respect, however, market and industry data is subject to variation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. This information has not been independently verified by the Company, any of its respective directors, officers or representatives or any other person involved in the preparation of this MD&A and no representation is given as to the accuracy of any of the data referred to in this MD&A obtained from third party sources.

BUSINESS OVERVIEW

We are a North American forestry company with two principal business segments, lumber and bioenergy. We have operations in the US South and British Columbia, and operate a bioenergy facility in British Columbia.

Our lumber segment is primarily involved in the manufacture, sale and distribution of dimension lumber. We operate three sawmills in the US South, two of which are in Arkansas and one in Florida, and two sawmills in the interior region of BC.

In the US South, we operate a sawmill, including approximately 186 acres of land, near El Dorado, Arkansas (the "El Dorado Mill"). Our El Dorado Mill is situated in an area well regarded for its availability of high quality sawlogs within cost effective proximity and a skilled labour pool. We largely completed our capital project to modernize and re-start our El Dorado Mill in October 2017. We commenced lumber shipments at the El Dorado Mill towards the end of 2017, and are now operating the mill on a two-shift basis. The El Dorado Mill is designed to have an annual production capacity of 180 million board feet on a two-shift basis.

In July 2018, we acquired two sawmills, one in Cross City, Florida (the "Cross City Mill") and a second in Glenwood, Arkansas (the "Glenwood Mill"), which significantly increased our presence in the US South.

The Cross City and Glenwood mills add premium priced southern yellow pine decking products to our product mix, along with long established customer relationships in Florida and the Southern and Eastern US. The acquired mills had significant modernization projects completed in recent years.

Following the acquisition, our total annual lumber production capacity increased approximately 50% to 1.1 billion board feet and our total annual production capacity in the US South increased approximately 200% to 550 million board feet.

We believe that our expansion into the US South will help further diversify our operations and provide an important source of revenue diversification not subject to punitive trade actions on Canadian softwood lumber recently initiated by the US. Additionally, our expansion into the US South establishes an entry point to what is generally regarded as one of the most competitive softwood supply regions in North America.

In BC, we operate the Fort St. James sawmill (the "FSJ Mill") in Fort St. James, British Columbia, and hold a forest licence with an allowable annual cut ("AAC") of 440,000 cubic metres in the timber supply area (the "TSA") in and around Prince George, British Columbia. The FSJ Mill has approximately 300 million board feet of annual lumber capacity on a 2-line, two-shift basis. We operate an additional 2-line sawmill (the "Mackenzie Mill") in Mackenzie, British Columbia. We hold a forest licence with a total AAC of 632,500 cubic metres in the TSA in and around Mackenzie, and own 50% of a joint venture which holds a forest licence with a total of 300,000 cubic metres in the same TSA. Our Mackenzie Mill has approximately 240 million board feet of annual lumber capacity on a two-shift basis.

Our lumber products are primarily sold in markets in the United States, China, Canada and Japan.

In our bioenergy segment, our wholly-owned subsidiary, Conifex Power Limited Partnership (“Conifex Power”), owns and operates a 36 megawatt biomass power generation plant (the “Mackenzie Power Plant”), located at the site of our Mackenzie Mill. Feedstock for the Mackenzie Power Plant is primarily sourced from a portion of the residuals and former waste products produced by our lumber manufacturing and log harvesting operations. The Mackenzie Power Plant's output capacity is in excess of 230 gigawatt hours ("GWh") of electricity per year. We have executed an electricity purchase agreement ("EPA") and a related load displacement agreement ("LDA") with the British Columbia Hydro and Power Authority ("BC Hydro"). Under the EPA, BC Hydro agreed to purchase approximately 200 GWh of electrical energy annually over a 20-year term for a fixed price, and under the LDA we agreed to supply the energy requirements of our Mackenzie operations over the same 20-year term.

SIGNIFICANT DEVELOPMENTS IN 2018

In 2018, we expanded our operations in the US South by commencing commercial operations at the El Dorado Mill and completing the acquisition of the Cross City and Glenwood mills. Concurrently, we completed a public offering of our common shares and refinanced our lumber segment credit facility. In addition, we completed the refinancing of our bioenergy segment term loan.

Despite a significant decline in lumber prices in the second half of 2018, strong lumber prices in the first half of the year, the commencement of operations at our El Dorado Mill and the addition of the Cross City and Glenwood mills led to record revenues and adjusted EBITDA for us through the first three quarters of the year. Operating results in the closing quarter of the year reflected lower sales realizations from significantly weaker lumber prices. Notwithstanding, we ended the year with record revenues and our second-best adjusted EBITDA year on record. We are encouraged by improving operating rates at our Arkansas mills, both of which are ramping up second production shifts and are expected to help offset temporary production curtailments at our FSJ Mill in the first half of 2019.

We ended the year with liquidity of $17.8 million, compared to $49.2 million at the end of 2017. Our net debt to capitalization ratio was 47% at December 31, 2018 compared to 41% at December 31, 2017. We have taken (and continue to take) a number of actions to reduce cash outflows at our BC mills, increase cash inflows at our US mills, and more actively manage debt and working capital levels (see "Liquidity and Capital Resources" below). We expect our US mills will provide additional product and geographic diversification and a reliable source of cash flow as productivity and other operational improvements continue to progress throughout 2019.

Acquisition of the Cross City and Glenwood Mills

In July 2018, we acquired all of the outstanding membership interests of Suwannee Lumber Holding Company LLC, Suwannee Timber Management LLC and Caddo River Forest Products LLC (collectively, the "BW Group") pursuant to a securities purchase agreement with BW SLC Holdings LLC and certain minority shareholders. The purchase price was (i) cash consideration of US$153.2 million plus US$17.1 million, representing the net working capital of the BW Group, (ii) $54.2 million through the issuance of 9,273,291 of our common shares at fair market value on the closing date of $5.84 per share, and (iii) 3.5 million warrants to purchase our common shares for a period of five years at an exercise price of $8.78 per share (subject to a one-year extension in certain circumstances).

In connection with the acquisition, we completed a public offering of 10,806,332 million subscription receipts (the "Subscription Receipts") at a price of $6.00 per Subscription Receipt for gross proceeds of $64.8 million. We used the net proceeds from the offering to partially pay for the acquisition of the BW Group. The Subscription Receipts were converted into our common shares on closing of the BW Group acquisition.

The Cross City and Glenwood mills both primarily produce southern yellow pine ("SYP") dimension lumber and specialty decking products and have a combined annual dimension lumber capacity of approximately 370 million board feet on a two-shift basis.

US$225 Million Senior Secured Credit Facility and Amendments

In July 2018, we completed a US$225 million secured credit facility (the "Credit Facility") with a syndicate of institutional lenders arranged and led by a leading US commercial bank. The Credit Facility consists of a US$165 million term loan facility and a US$60 million revolving credit facility with a term of 5 years and is secured by substantially all of our assets (other than our bioenergy segment assets). Availability under the revolving credit facility is determined by a borrowing base tied to eligible accounts receivable and inventory. The terms of the Credit Facility were amended subsequent to completion (see "Liquidity and Capital Resources" below). We utilized a portion of the facility to acquire the BW Group and to repay, in full, our then-outstanding lumber segment credit facility.

As a result of a decline in lumber prices commencing in or about the fourth quarter of 2018, we and our lenders amended the Credit Facility to, among other things, eliminate certain financial covenants until the end of the first quarter of 2020. See “Credit Facility” below.

Completion of $70 Million Secured Term Loan

In October 2018, Conifex Power completed a $70 million secured term loan with a syndicate of private lenders. The loan has a 15-year term and is secured by substantially all of the power segment assets. The loan is expected to be fully amortized over its 15-year term and is non-recourse to our other operations. We used the net proceeds from the loan to repay the previous term loan facility for the Mackenzie Power Plant.

FSJ and US South Mills' Operating Results

Our lumber segment operating results were hampered by lower operating rates which resulted in higher unit cash conversion costs at the FSJ Mill and both Arkansas mills in the second half of 2018.

In the third quarter of 2018, we either fully curtailed or partially reduced operations at the FSJ Mill for several weeks in response to an evacuation alert issued by local authorities due to wildfire activity in the area. We did not sustain any damage to our facilities from the wildfires.

In the fourth quarter of 2018, we curtailed sawmill operations at the FSJ Mill for a total of approximately four weeks due primarily to market conditions reflecting lower lumber prices and elevated log costs. The lower operating rates at the FSJ Mill resulted in over 40 million board feet of reduced production in the second half of 2018.

Commercial operations at the El Dorado Mill have been recorded in our operating results from April 2018. The El Dorado Mill produced SYP lumber at an annual run rate of approximately 135 million board feet in the fourth quarter of 2018, equivalent to approximately 75% of two-shift capacity of 180 million board feet. The El Dorado Mill started operating a second shift in August 2018.

Operating results of the Cross City and Glenwood mills from July 10, 2018 are included in our consolidated operating results. In our preliminary purchase price allocation, the finished lumber inventory acquired at close was revalued from cost to reflect estimated fair market value. Accordingly, our operating results for the second half of 2018 exclude the benefit of the gross profit that would otherwise have been recorded when the lumber shipped. The Glenwood Mill commenced training of a second shift in August 2018 following the commissioning of a second continuous dry kiln at that site.

In the second half of 2018, overall operating results from our Arkansas mills were hampered by higher operating costs related to the additional costs and ramp up of second shifts without the attendant benefit of full two-shift productivity. We expect unit cash conversion costs to normalize in 2019 as operating rates approach targeted levels.

Collective Agreement with the United Steelworkers (USW)

Our collective labour agreement with the USW union, which represents our hourly employees at the FSJ and Mackenzie mills, expired on June 30, 2018. Conifex is a member of the Council on Northern Interior Forest Employment Relations ("CONIFER"), which represents 13 regional sawmills in the USW negotiations. CONIFER and the USW reached a tentative agreement in February 2019 with ratification of the agreement at each member mill expected in the first half of 2019. Any new collective labour agreement is expected to be retroactive to July 1, 2018.

Softwood Lumber Dispute

On November 25, 2016, a coalition of US lumber producers petitioned the US Department of Commerce ("USDOC") and the US International Trade Commission ("USITC") to investigate alleged subsidies to Canadian producers by the Federal and provincial governments and to therefore levy countervailing ("CV") and antidumping ("AD") duties against Canadian imports of softwood lumber. On January 6, 2017, a preliminary determination was announced by the USITC that there was reasonable indication that the US industry is materially injured by imports of Canadian softwood lumber products and the USDOC imposed duties on such shipments into the US.

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards, initially at 19.88%, but subsequently amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially at 6.87%, but subsequently amended to 6.04%.

The rate amendments resulted in an overpayment of duty deposits in 2017 of $2.3 million which we recorded as a reduction of CV and AD duty deposit expense in September 2017. The overpayment is included in deposits and long-term receivables on our consolidated balance sheet.

We expensed CV and AD duty deposits totaling $24.7 million in 2018 and $9.9 million in 2017, based on the final "all other" CV rate of 14.19% and AD rate of 6.04%, on shipments of softwood lumber to the US.

The duty rates are subject to change based on administrative reviews and appeals available to us. Notwithstanding the deposit rates assigned under the investigations, Conifex's final liability for the assessment of CV and AD will not be determined until each annual administrative review process is complete and related appeal processes are completed. Cumulative duties of $34.6 million paid by Conifex since the inception of the current trade dispute remain held in trust by the US pending the First Administrative Review and conclusion of all appeals of US decisions.

Like other Canadian forest product companies, the Federal Government and Canadian provincial governments, Conifex denies the US allegations and strongly disagrees with the current CV and AD determinations made by the USDOC. The Federal Government has proceeded with legal challenges under the North American Free Trade Agreement and through the World Trade Organization, where Canadian litigation has proven successful in the past.

Temporary Production Curtailments at FSJ Mill in First Half of 2019

In November 2018, we announced the temporary reduction of operating capacity at the FSJ Mill starting January 1, 2019, with the reduced operating format expected to continue until about mid-2019. In January 2019, we announced the temporary curtailment of sawmill operations at the FSJ Mill for three weeks in February. The temporary change in operating format and the February curtailment are due primarily to continued high log costs and lumber market conditions, exacerbated by the ongoing imposition of softwood lumber duties.

The curtailments are expected to result in an estimated 28% reduction in lumber production from our BC mills for the first six months of 2019. We continue to monitor lumber market conditions on an ongoing basis and intend to maintain operating flexibility to respond appropriately. We expect that a majority of our lumber production will be sourced from the lower cost US South supply region during this period.

SUMMARY OF OPERATING RESULTS

Selected Financial Information

(millions of dollars except share and per share amounts and exchange rate information)	**2018**	**2017**
Sales by Segment		
Lumber	643.1	443.9
Bioenergy	26.8	25.8
	669.9	469.7
Operating Earnings by Segment		
Lumber	16.6	31.4
Bioenergy	9.1	7.5
Corporate and other unallocated items	(7.8)	(7.5)
	17.9	31.4
Adjusted EBITDA by Segment		
Lumber	36.5	43.3
Bioenergy	14.2	12.5
Corporate and other unallocated items	(10.3)	(9.8)
	40.4	46.0
Net income (loss)	(7.1)	17.0
Net income (loss) per share - basic and diluted (1)	(0.19)	0.67
Shares outstanding - weighted average (millions)	36.3	25.4
Total assets	739.2	444.8
Total long-term debt (2)	285.6	162.3
Average exchange rate - US$/Cdn$ (3)	0.772	0.771
Reconciliation of Adjusted EBITDA to Net Income (Loss)		
Net income (loss)	(7.1)	17.0
Add: Finance costs	17.4	7.6
Amortization	26.3	18.3
Deferred income tax expense (recovery)	(5.0)	3.1
EBITDA (4)	31.6	46.0
Add: foreign exchange translation loss on long-term debt	8.8	-
Adjusted EBITDA (5)	40.4	46.0

(1) Outstanding warrants and options are excluded from the calculation of diluted net income per share if inclusion is anti-dilutive.
(2) Total long-term debt excludes the current portion.

(3) Source: Bank of Canada, www.bankofcanada.ca.
(4) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.
(5) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, and foreign exchange translation gains or losses on long-term debt.

Our revenues totaled $669.9 million in 2018, representing a year-over-year increase of 43%. The revenue growth was mostly attributable to the addition of lumber and by-products shipments from our US mills, higher average lumber prices and improved revenue contribution from wholesale lumber shipments. Bioenergy segment revenues were generally consistent with the previous year.

We recorded operating income of $17.9 million in 2018 compared to $31.4 million in 2017. Lumber segment operating earnings included CV and AD duty deposits expense on shipments to the US of $24.7 million in 2018 and $9.9 million in 2017. Bioenergy segment operating earnings increased by $1.6 million in 2018, a year-over-year improvement of 21%.

The net loss for 2018 included a foreign exchange translation loss on long-term debt of $8.8 million, loss on derivative financial instruments of $1.1 million and non-recurring acquisition costs of $2.2 million. Finance costs and accretion increased by $9.8 million over the previous year, largely due to the accelerated amortization of financing costs of $2.9 million related to the early extinguishment of our then-existing credit facilities, financing costs related to the Credit Facility and Conifex Power term loan, and higher interest costs from increased borrowings related to the acquisition of the BW Group.

We recognized deferred income tax recovery of $5.0 million in 2018 and deferred income tax expense of $3.1 million in 2017.

The net loss for the year ended December 31, 2018 was $7.1 million or $0.19 per diluted share compared to net income of $17.0 million or $0.67 per diluted share for the prior year. Adjusted EBITDA was $40.4 million for 2018 and $46.0 million for 2017.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices)	2018	2017
Sales Lumber - Conifex produced	392.9	281.8
Lumber - wholesale	182.7	118.5
By-products	48.1	26.1
Logistics services	19.4	17.5
Total Sales	643.1	443.9
EBITDA	36.5	43.3
Amortization and other	19.9	11.9
Operating income	16.6	31.4
Statistics (in millions, other than exchange rate and lumber prices)		
Production - WSPF lumber (MMfbm)	453.5	518.5
Production - SYP lumber (MMfbm)	202.7	-
Shipments - WSPF lumber (MMfbm)	458.2	512.7
Shipments - SYP lumber (MMfbm)	194.4	-
Shipments - wholesale lumber (MMfbm)	222.9	162.2
Average exchange rate - US$/Cdn$ (1)	0.772	0.771
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$480	$401
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (3)	$621	$520
Average SYP 2x4 #2&Btr lumber price (US$) (4)	$500	$433
Average SYP 2x4 #2&Btr lumber price (Cdn$) (3)	$648	$563
Price range: WSPF 2x4 #2&Btr lumber price (US$) (2)	$298-$655	$306-$494
Price range: SYP 2x4 #2&Btr lumber price (US$) (2)	$368-$602	$360-$502

(1) Source: Bank of Canada, www.bankofcanada.ca.
(2) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.
(3) Average SPF 2x4 #2&Btr and SYP Westside 2x4 #2 lumber prices (US$) divided by average exchange rate.
(4) Source: Random Lengths Publications Inc. - Southern Yellow Pine Westside, per thousand board feet.

The residential home construction and residential improvement sectors account for approximately 32% and 39%, respectively, of US softwood lumber consumption and represent the largest end user markets.[1] The US Census Bureau reported an estimated 1.24 million privately-owned housing units were started in 2018 compared to 1.20 million starts in 2017. The increase in new US housing starts of 3.3% reflects a modest improvement in the pace of growth in the residential housing construction market compared to the 2.4% increase reported in 2017 compared to 2016. Single-family housing starts accounted for approximately 70% of total US housing starts in 2018 and 2017. Lumber consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family units. The positive trend in the steady recovery of US residential construction markets is expected to continue. Forecasts for 2019 housing starts by several industry analysts and associations reviewed by the Company averaged 1.28 million units, and indicated moderate growth of approximately 3% over 2018. Single-family housing starts are expected to increase by 5% over 2018. Expenditures in the residential improvement sector are projected to increase by 3% in 2019 and contribute to modest growth in US softwood lumber consumption of 2% over 2018.[2]

Lumber prices exhibited volatility in 2018 with prices for the bell-weather WSPF 2x4 #2 & Btr product averaging US$558 for the first seven months of the year and US$375 for the last five months[3]. Industry

[1] Source: Forest Economic Advisors.
[2] Source: Forest Economic Advisors.
[3] Source: Random Lengths Publications Inc.

analysts reviewed by the Company attributed the stronger lumber prices earlier in the year to a combination of strong demand growth and weather related transportation issues, particularly in western Canada, which constrained supply. A subsequent increase in inventory in the supply chain as logistics challenges eased, combined with a slower pace of US housing growth, contributed to a steep decline in lumber prices during the latter half of the year. Lower lumber prices persisted throughout the fourth quarter, seasonally the slowest time of year, as particularly wet weather in the US South further constrained homebuilding activity and lumber demand.

Prices for WSPF 2x4 #2 & Btr averaged US$480 during 2018 compared to US$401 in 2017. Benchmark prices for SYP Westside averaged US$500 during 2018 and US$433 in 2017. The Canadian dollar averaged US$0.772 in 2018, a level generally consistent with the previous year.[4] Canadian dollar-denominated benchmark lumber prices for WSPF increased by $101 per thousand board feet or 19% year-over-year and averaged $621 in 2018.

The US and China remained our principal markets for our BC mills and accounted for over 75% of total shipments in both comparative years while shipments to Japan remained steady at approximately 7%. Shipments to other offshore markets averaged 4% of our total volumes in 2018 and 2017. The balance of our lumber shipments from our BC mills were directed to the domestic Canadian market.

Revenues from Conifex produced lumber was $392.9 million in 2018 and $281.8 million in 2017. The growth of 39% is primarily attributable to an increase in shipment volumes of 27% and improved sales realizations of 10%. Shipments from our US mills of 194 million board feet this year more than offset an 11% reduction in shipments from our BC mills with the decline due primarily to curtailments at our FSJ Mill. The gain in sales realizations reflects higher average benchmark lumber prices, and to a lesser extent, a higher value product mix with the addition of SYP decking products in the second half of the year.

Wholesale lumber revenues increased by 54% to $182.7 million in 2018 compared to 2017. The growth was mostly due to an increase in shipment volumes of 37% and improvement in unit sales realizations of 12% from higher lumber prices.

Overall lumber shipments totalled 876 million board feet in 2018 and represented a year-over-year increase of 30%.

Revenues from wood chips and other by-products increased by 84% year-over-year to $48.1 million in 2018. By-products revenues from our BC mills increased by 15% as an improvement in chip prices, which fluctuate with pulp prices, more than offset moderately lower shipment volumes. The balance of the revenue growth was attributable to the contribution of residual revenues from our US mills.

An increase in revenues from the provision of third party logistics services of 11% to $19.4 million was generally attributable to revitalized demand in certain industry sectors.

Lumber production at our BC mills, which totaled 454 million board feet in 2018 and represented an annualized operating rate of 84%, declined by 13% year-over-year mostly due to the aforementioned curtailments at the FSJ Mill. The El Dorado Mill contributed production from April 2018 and the Cross City and Glenwood mills from July 2018. Both of our Arkansas mills commenced second shift operations in August 2018 and continued to ramp up production through the balance of the year. Our US mills produced approximately 203 million board feet of lumber in 2018 and fourth quarter production volumes represented an annualized operating rate approaching 70%. Overall lumber production increased by 27% year-over-year and totaled 656 million board feet in 2018.

The two main elements of lumber manufacturing costs are generally log costs and conversion costs. Log costs typically account for the majority of the costs. Cash conversion costs exclude depreciation and amortization expense. Compared to 2018, overall unit manufacturing costs at our BC mills increased by 16%.

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[4] Source: Bank of Canada, www.bankofcanada.ca.

A year-over-year increase in unit log costs at our BC mills of 20% was mainly attributable to higher market based stumpage, which was partially a result of stronger lumber prices earlier in the year and purchased log costs which remained at elevated levels throughout 2018. Unit log costs at our US mills were generally stable throughout the year but exhibited some volatility in certain regions in the fourth quarter as wet weather temporarily constrained supply.

Overall operating costs in 2018 were challenged by the lower operating rates at our BC mills and the additional costs associated with ramping up second shifts at our two Arkansas mills without the attendant benefit of higher productivity. We expect unit cash conversion costs to improve and normalize as we progress the ramp up of second shift production and approach targeted operating rates. An increase in unit cash conversion costs of 10% at our BC mills in 2018 was mostly due to lower operating rates.

The decline in lumber prices in the second half of 2018 resulted in an inventory write down of $4.0 million in 2018 compared to a write down of $0.8 million in 2017. A year-over-year increase in depreciation and amortization expense of $7.9 million was mainly attributable to the addition of our US operations.

We expensed CV and AD duty deposits of $24.7 million in 2018 and $9.9 million in 2017. The duty deposits were based on a combined rate of 20.23% in 2018 and approximately 7.40% in 2017.

The lumber segment recorded operating income of $16.6 million in 2018 compared to $31.4 million in 2017. Lumber segment operating results in the current year were hampered by lower lumber shipments and operating rates and higher unit operating and log costs at our BC mills, higher operating costs at our El Dorado and Glenwood mills related to the addition of second shift personnel, higher depreciation expense, negative year-over-year variances in CV and AD duty deposits expense of $14.8 million, inventory valuation adjustments of $3.2 million and marked to market valuation on acquired finished goods inventories that would otherwise have flowed through operating earnings at time of shipment. These factors outweighed the benefits of significant revenue growth from the addition of shipments from our US mills and higher average lumber prices.

Lumber segment EBITDA was $36.5 million in 2018 compared to $43.3 million in 2017.

Bioenergy Segment

Operating Results

(millions of dollars, other than statistical information)	**2018**	**2017**
Electricity sales under EPA - GWh	211.3	207.7
Electricity revenues	26.8	25.8
EBITDA	14.2	12.5
Amortization	5.1	5.0
Operating income	9.1	7.5

The Mackenzie Power Plant sold 211.3 GWh hours of electricity under our EPA with BC Hydro in 2018, which represented an increase of 2% over the previous year and approximately 96% of targeted operating rates.

Current year electricity revenues of $26.8 million increased by 4% over the previous year due to improved operating rates and some variation in the timing and duration of the dispatch period (discussed below). Cash operating costs improved by approximately 5% and amortization expense was generally consistent from year to year.

Bioenergy segment operating income improved by 21% in 2018 due primarily to higher revenues and reduced operating costs. Bioenergy segment EBITDA improved by 14% to $14.2 million in 2018 from $12.5 million in 2017.

Dispatch Notice

Our EPA with BC Hydro, similar to electricity purchase agreements with other independent power producers, provides BC Hydro with the option to “turn down” electricity purchased from us during periods of low demand by issuing a “dispatch order”. In January 2018, BC Hydro issued a dispatch order with respect to, among others, the Mackenzie Power Plant advising of a dispatch period of 112 days, encompassing the mid-May to early September 2018 period. Last year, the Mackenzie Power Plant, among others, was dispatched for 122 days encompassing the months of April, June, July and August. During the dispatch period, we only produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro. We continue to be paid revenues under the EPA based upon a reduced rate and on volumes that are generally reflective of contracted amounts.

Corporate Costs and Acquisition Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $7.8 million in 2018 and $7.5 million in 2017. A year-over-year increase in professional fees and expenses related to the establishment of a new US business unit were somewhat offset by lower professional fees related to the softwood lumber trade dispute.

In addition, we recorded non-recurring transaction costs related to the acquisition of the BW Group of $2.2 million in 2018.

Interest Expense and Finance Costs

Finance costs related to debt issuance are amortized over the remaining term of each respective credit facility. Borrowing costs attributable to the development of the El Dorado Mill were recorded as capital costs in 2017 and the first quarter of 2018.

Interest and finance costs totalled $17.4 million in 2018 and $7.6 million in 2017. The year-over-year increase in interest and finance costs was primarily attributable to increased borrowings to finance the purchase of the Cross City and Glenwood mills, accelerated amortization of financing costs and marked to market interest payments totaling $2.9 million related to the extinguishment of our then-existing revolving credit facility and the Conifex Power term loan which were fully repaid, and expensing of borrowing costs related to the development of the El Dorado Mill which had been previously capitalized.

Gains or Losses on Derivative Financial Instruments

We utilize derivative financial instruments to manage commodity lumber price exposure in the ordinary course of our business and to manage interest rate variability. Gains or losses on lumber derivative instruments are recognized as other income or expense and allocated to lumber segment operating results, either as they are settled or as they are marked to market for each reporting period. Conifex does not presently use derivatives for trading or speculative purposes. We recorded a loss on lumber derivative instruments of $1.1 million in 2018 and a loss of $1.9 million in the previous year.

The term loan for our power business, which was fully repaid in October 2018, consisted of a floating rate tranche and a fixed rate tranche. Conifex Power entered into interest rate swap transactions with the lead arranger to swap the interest rates on the floating rate tranche of the term loan to fixed interest rates. Losses of approximately $1.2 million on the interest rate swap instruments, including a payment for early termination of the swaps, were recorded as interest expense in 2018 compared to losses of approximately $0.8 million in 2017. The interest rate swap transactions were terminated in October 2018 concurrent with the refinancing of the bioenergy segment term loan (see "Completion of $70 Million Secured Term Loan" above).

Foreign Exchange Translation Gain or Loss

The foreign exchange translation gain or loss recorded for each period on our statement of net income results from the revaluation of US dollar-denominated cash, working capital balances and revolving loan of Canadian operations to reflect the change in the value of the Canadian dollar relative to the value of the US dollar. In 2017, the net US dollar-denominated assets of the El Dorado Mill were included in the calculation as it was a non-operating subsidiary. US dollar-denominated monetary assets and liabilities are translated using the period end rate.

The exchange rate for one Canadian dollar was US$0.733 at December 31, 2018, and US$0.797 at December 31, 2017[5]. We recorded foreign exchange translation losses of $0.4 million in 2018 and $1.9 million in 2017.

In 2018, we recognized a foreign exchange loss of $8.8 million on our US dollar term loan held by our Canadian entities due to the weaker Canadian dollar at December 31, 2018 relative to the exchange rate when we completed the Credit Facility.

Foreign exchange differences for foreign operations with a functional currency that differs from the Company's presentation currency are recognized as other comprehensive income or loss and reflected in the statement of changes in equity. We recorded an after-tax gain of $16.7 million to other comprehensive income in 2018 resulting from the weaker Canadian dollar at the end of 2018 compared to when we added the foreign operations during the year.

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for income tax purposes. The Company recorded deferred income tax recovery of $5.0 million in 2018 compared to deferred income tax expense of $3.1 million in 2017. As at December 31, 2018, the Company had recognized deferred income tax assets of $3.8 million and deferred income tax liabilities of $1.9 million. At December 31, 2018, the Company had unused non-capital tax losses carried forward totalling $31.4 million (December 31, 2017: $7.7 million).

[5] Source: Bank of Canada, www.bankofcanada.ca

SUMMARY OF FINANCIAL POSITION

The following table summarizes the Company's financial position as at December 31, 2018 and 2017:

(millions of dollars, excluding ratio and percentages)	**2018**	**2017**
Cash	16.3	16.9
Cash - restricted	8.6	9.3
Operating working capital	87.0	69.7
Operating loans	-	(1.6)
Current portion of revolver and long-term debt	(46.4)	(5.9)
Net current assets	65.5	88.4
Long-term assets - goodwill	163.8	3.3
Long-term assets related to Mackenzie Power Plant	111.4	113.9
Long-term assets - lumber segment and corporate	302.0	189.7
	642.7	395.3
Non-interest bearing long-term liabilities	17.0	23.4
Long-term debt - Conifex Power term loan	63.4	62.5
Revolving credit facility	23.7	94.2
Long-term debt - other	198.5	5.6
Shareholders' equity	340.1	209.6
	642.7	395.3
Total assets	739.2	444.8
Total liabilities	399.1	235.2
Ratio of current assets to current liabilities	1.7	2.8
Net debt to capitalization	47%	41%
Net debt to capitalization (1)	42%	29%

(1) Excluding borrowings by Conifex Power, which are non-recourse to our other operations.

The ratio of current assets to current liabilities was 1.7:1 at December 31, 2018 compared to 2.8:1 at December 31, 2017. The year-over-year change is primarily attributable to the increase in debt repayments due within one year and classified as current.

We manage capital with the objective of maintaining a strong balance sheet to help ensure adequate capital resources to support operations, sustain future development and facilitate access to capital markets at competitive rates. We use the net debt to total capitalization ratio to measure our relative debt position and as an indicator of the relative strength and flexibility of our balance sheet. Net debt is calculated as the principal value of long-term debt, including the current portion, and bank advances, less cash. Total capital is calculated as the sum of net debt and equity.

Net debt at December 31, 2018 was $307.0 million compared to $143.7 million at December 31, 2017. The change in net debt was primarily due to borrowings under the Credit Facility to partially finance the purchase of the Cross City Mill and the Glenwood Mill, including net working capital. Our short-term priorities are to reduce debt and enhance liquidity by focusing on operational improvements and undertaking other initiatives as discussed under "Liquidity and Capital Resources". The net debt to capitalization ratio was 47% at December 31, 2018 compared to 41% at December 31, 2017. Excluding the effects of borrowings by Conifex Power, the net debt to capitalization ratio was 42% compared to 29% at December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(millions of dollars)	**2018**	**2017**
Cash generated from (used in)		
Operating activities	51.7	31.8
Financing activities	196.9	44.3
Investing activities	(250.1)	(72.9)
Increase (decrease) in cash	**(1.5)**	**3.2**

Operating Activities
We operate in a cyclical industry.

Working capital levels fluctuate throughout the year and are impacted by a variety of factors, including changes in sales volume and price, shipment patterns, operating rates, seasonality and timing of receivables and payment of payables and expenses. Our fibre inventories exhibit seasonal swings as log inventories are increased during the fall and winter months to help ensure adequate supply of fibre to our Canadian mills during the spring months. Factors such as disruption of transportation services by third party providers, variability in export shipments and operating rates can impact the level of lumber inventories. We believe our management practices with respect to working capital conform to common business practices in our industry.

We generated cash from operations before working capital changes of $40.1 million and $11.6 million from reduction of working capital in 2018. Net working capital of $25.5 million related to the purchase of the Cross City and Glenwood mills were recorded as cash outflows from investing activities. A year-over-year increase in our investment in non-cash working capital of $17.2 million comprised the addition of prepaid timber harvest rights and incremental prepaid expenses and deposits of $16.0 million and higher inventories of $5.5 million, offset by an increase in accounts payable and accrued liabilities of $4.3 million.

We generated cash from operations before working capital changes of $48.4 million and consumed cash of $16.6 million in incremental working capital in 2017.

Financing Activities
Financing activities provided net cash of $196.9 million in 2018. Cash inflows included drawings on the revolving loan of $43.8 million and term loan of $216.1 million under the Credit Facility, and net proceeds from the Conifex Power term loan of $70 million and from the issuance of common shares in connection with the offering of Subscription Receipts of $60.6 million. Cash outflows included the repayment and retirement of our then-existing revolving credit facility of $97.5 million and Conifex Power's then-existing term loan and operating loan of $62.8 million and $1.6 million, respectively, repayment of long-term debt of $8.3 million and the payment of finance expenses of $23.3 million.

Financing activities provided net cash of $44.3 million in 2017 and included net proceeds from operating loans of $69.3 million, the offering of common shares of $14.2 million, and capital leases of $6.3 million. Cash outflows included debt repayments totalling $36.6 million and the payment of finance expenses of $8.9 million.

Investing Activities
Investing activities consumed cash of $250.1 million in 2018 and mainly consisted of the cash portion of the purchase of the Cross City Mill and Glenwood Mill, including net working capital, of $221.9 million; $10.4 million on capital improvements at our BC mills, $2.4 million on major maintenance items at the Mackenzie Power Plant and $15.5 million related to our US mills. Lumber segment capital expenditures for our BC mills were primarily related to the upgrade of infrastructure to support waterborne transport of logs at Mackenzie and maintenance of business projects. Expenditures related to the US mills largely comprised remaining payments on previously accrued capital commitments and capitalization of start-up costs in the first quarter of 2018 at the El Dorado Mill and a number of smaller high return projects.

Investing activities consumed cash of $72.9 million in 2017 and consisted primarily of $65.3 million on our capital project at the El Dorado Mill and $7.6 million on capital improvements at our BC mills. Capital items for our BC mills included the completion of an upgrade to a log line at the Mackenzie Mill, upgrade of various infrastructure related to our water transport operations and logging camps, and additions of mobile equipment.

Credit Facility

In July 2018, we completed a syndicated five-year US$225.0 million senior secured credit facility led by a leading US commercial bank, along with a syndicate of other lenders. The Credit Facility consists of a US$165.0 million term loan facility and a US$60.0 million revolving credit facility. The Credit Facility is secured by substantially all of our lumber segment assets. In addition to financing a part of the acquisition of the Cross City and Glenwood mills, a portion of the Credit Facility was utilized to repay and retire our outstanding revolving credit facility.

Interest is payable on the Credit Facility at floating rates based on the lenders' Canadian prime rate, CDOR, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the loan parties' maximum total leverage ratio.

Our borrowings under the Credit Facility are subject to customary covenants, including a fixed charge coverage ratio and a maximum total leverage ratio. The financial covenants are measured quarterly based on the performance and financial position of the loan parties, which excludes certain of our subsidiaries.

The term loan is subject to quarterly scheduled repayments and amortized at 5% of the principal amount over the first two years, 7.5% in year three, and 10% in years four and five. Additional annual principal repayments commence in the second quarter of 2020 and are based on 50% of excess cash flow from the prior fiscal year.

Availability under the revolving credit facility is determined by a borrowing base calculation tied to eligible receivables and inventory, net of specific reserves. Borrowings can be drawn in Canadian or US dollars.

During the fourth quarter of 2018, we and our lenders amended certain terms under the Credit Facility to eliminate certain financial covenants for the measurement date ending December 31, 2018. Subsequently, in 2019, we entered into further amendments, which included the elimination of measurement of the financial covenants until the quarter ended March 31, 2020; an increase ranging from 1% to 2.25% in the applicable margin rate depending on the maximum total leverage ratio; revisions to availability under the revolving credit facility and a periodic reduction of the revolving credit facility. The reduction in the revolving credit facility is not expected to materially impact on forecasted borrowing base availability.

The amendments also provide for accelerated repayment of the term loan from additional scheduled repayments and an increase in the annual non-scheduled principal repayments from 50% to 80% of excess cash flow commencing in the second quarter of 2020. See "Contractual Obligations" below. Additionally, the term of the Credit Facility was revised to mature on June 30, 2021. The Company was in compliance with its covenants under the Credit Facility for the year ended December 31, 2018.

Liquidity

Our principal sources of funds are cash on hand, cash flow from operations, and our revolving credit facilities. Our principal uses of funds consist of operating expenditures, interest payments, repayment of debt and capital expenditures.

Total liquidity is comprised of unrestricted cash and available credit under our revolving credit facility. At December 31, 2018, we had total liquidity of $17.8 million, compared to $49.2 million at the end of 2017. Liquidity is comprised of unrestricted cash of $16.3 million and unused availability under our revolving credit facilities of $1.5 million. Availability under the Credit Facility is determined by periodic borrowing base calculations that fluctuate with eligible accounts receivable and inventory balances, net of specific reserves.

Like other Canadian lumber producers, we were required to begin depositing cash on account of softwood lumber export duties imposed by the US in April 2017. We expect future cash flow will continue to be adversely impacted by the CV and AD duty deposits, to the extent the additional costs on US destined shipments are not mitigated by higher lumber prices. Cumulative duties of $34.6 million paid by Conifex since the inception of the current trade dispute remain held in trust by the US pending the First Administrative Review and conclusion of all appeals of US decisions.

The decrease in liquidity in 2018 compared to 2017 was due primarily to a steep decline in lumber prices in the second half of 2018, the combined impact of duty deposits on US shipments coupled with rapidly escalating log costs at our BC mills, and increased debt levels incurred to fund our strategic expansion in the US South. We have taken a number of actions to reduce cash outflows at our BC mills, increase cash inflows at our US mills, and more actively manage debt and working capital levels. We continue to manage controllable expenses to optimize liquidity.

In the fourth quarter of 2018, in response to market conditions characterized by lower lumber prices and elevated log costs in the northern interior of BC, we announced a temporary change in operating format at the FSJ Mill which is expected to reduce investment in working capital and reduce overall costs. We also subsequently announced a three-week production curtailment in early 2019 at this site. We continue to focus on and prioritize operational enhancements and cost containment as our two Arkansas mills ramp up two-shift production to targeted operating rates. We have worked closely with our principal lenders and renegotiated key covenants under the Credit Facility (see "Credit Facility").

We have assessed and are prepared to consider implementing other options to increase liquidity and meet our scheduled commitments. This includes minimizing discretionary capital expenditures, further reducing working capital levels, and potentially monetizing certain assets that are not central to our mid- and long-term development as a North American lumber producer.

We monitor expected liquidity levels and compliance with debt covenants by regularly preparing rolling cash flow forecasts to help ensure sufficient resources are available to meet operational requirements, debt service commitments and to sustain future business development. Based on the current level of operations and our present expectations for future periods in light of the existing economic environment, coupled with the actions already taken and the alternatives available to us, we believe that cash flow from operations and available cash, together with available borrowings under the revolving credit facility, will be adequate to meet our obligations through 2019. We expect our US mills to provide additional reliable sources of cash flow with productivity and other operational improvements continuing to progress throughout 2019.

Contractual Obligations

The following table summarizes the estimated aggregate amount of future cash outflows for contractual obligations with exclusions as noted below:

	Payments due by Period				
(millions of dollars)	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long term debt	327.0	42.9	200.4	14.0	69.7
Revolving credit facility	42.2	12.0	30.2	-	-
Finance and operating leases	17.8	4.7	8.9	3.8	0.4
Reforestation obligations	14.7	6.1	3.5	1.5	3.6
Trade payables and accrued liabilities	37.7	37.7	-	-	-
Provisions and other liabilities	14.8	2.8	10.7	0.2	1.1
	454.2	106.2	253.7	19.5	74.8

Contractual obligations not included in the above table are:

- interest payments associated with floating rate debt that depend on the lenders' Canadian prime rate, CDOR, US dollar base rate or US dollar LIBOR rate during the year of payment.

- purchase obligations and contractual obligations related to ongoing normal commercial commitments to purchase timber, fibre, energy and other operating inputs. For these commitments, our obligations can vary significantly from contracted amounts depending on our requirements.

- Conifex Power has entered into agreements with BC Hydro for the sale of electricity and commitment of electrical load displacement from the Mackenzie Power Plant. The EPA requires performance guarantees to ensure minimum required amounts of electricity are generated, and the LDA includes incentive grants for load displacement, with penalty clauses if the requirements are not met. As at December 31, 2018, Conifex Power had posted $7.2 million of standby letters of credit as part of these commitments and had no repayment obligations under the terms of these agreements.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements at December 31, 2018 were comprised of standby letters of credit totalling $7.2 million posted by Conifex Power, and operating leases for vehicles, equipment and machinery. The standby letters of credit are issued to BC Hydro to support the EPA and the LDA.

Transactions Between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the year ended December 31, 2018.

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SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, statistical and exchange rate information and lumber price	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Sales - lumber segment	148.6	176.0	195.2	123.3	124.5	114.2	111.7	93.5
Sales - electricity	8.0	6.1	5.1	7.5	8.2	6.1	4.7	6.8
Operating income (loss)	(15.2)	10.1	16.0	7.0	14.7	8.8	6.4	1.5
Net income (loss)	(23.1)	4.3	9.2	2.5	8.0	6.2	4.2	(1.4)
Net income (loss) per share - basic and diluted	(0.49)	0.09	0.35	0.10	0.30	0.23	0.16	(0.06)
Adjusted EBITDA (1)	(6.0)	16.3	20.8	9.3	17.5	12.1	10.2	6.1
Shares outstanding - weighted average (millions)	46.6	45.3	26.5	26.4	26.4	26.4	26.3	22.5
Statistics (in millions, other than exchange rate and lumber prices)								
Production - WSPF lumber (MMfbm)	93.5	104.0	132.4	123.7	129.9	133.4	131.6	123.7
Production - SYP lumber (MMfbm)	95.1	82.6	25.0	-	-	-	-	-
Shipments - WSPF lumber (MMfbm)	99.9	111.8	133.8	112.7	138.2	135.3	128.5	110.7
Shipments - SYP lumber (MMfbm)	94.7	75.8	23.8	-	-	-	-	-
Shipments - wholesale lumber (MMfbm)	41.2	40.4	86.2	55.1	45.4	37.6	38.4	41.0
Electricity production - GWh	54.6	54.7	51.5	50.5	55.2	55.2	51.0	46.3
Average exchange rate - US$/Cdn$ (2)	0.757	0.765	0.775	0.791	0.787	0.798	0.744	0.756
Average WSPF 2x4 #2&Btr lumber price (US$) (3)	$327	$482	$598	$514	$464	$406	$388	$348
Average WSPF 2x4 #2&Btr lumber price (Cdn$)(4)	$432	$630	$772	$650	$590	$509	$522	$460
Average SYP 2x4 #2&Btr lumber price (US$) (5)	$419	$469	$574	$540	$438	$382	$455	$456
Average SYP 2x4 #2&Btr lumber price (Cdn$)(4)	$553	$613	$741	$683	$557	$478	$612	$603
Reconciliation of EBITDA to Net Income (Loss)								
Net income (loss)	(23.1)	4.3	9.2	2.5	8.0	6.2	4.2	(1.4)
Add: Finance costs	6.7	6.5	2.6	1.6	1.6	1.6	1.7	2.6
Amortization	9.3	7.0	5.5	4.5	4.8	4.3	4.3	4.9
Deferred income tax expense (recovery)	(10.2)	1.0	3.5	0.7	3.1	-	-	-
EBITDA (6)	(17.3)	18.8	20.8	9.3	17.5	12.1	10.2	6.1
Add: foreign exchange (gain) loss on long-term de	11.3	(2.5)	-	-	-	-	-	-
Adjusted EBITDA	(6.0)	16.3	20.8	9.3	17.5	12.1	10.2	6.1

(1) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, and foreign exchange translation gains or losses on long-term debt.
(2) Source: Bank of Canada, www.bankofcanada.ca.
(3) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.
(4) Average SPF 2x4 #2&Btr and SYP 2x4 #2 lumber prices (US$) divided by average exchange rate.
(5) Source: Random Lengths Publications Inc. - Southern Yellow Pine Westside, per thousand board feet.
(6) The Company's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.

Our quarterly financial results are impacted by a variety of market related factors, including fluctuations in lumber prices and prices of certain commodities related to by-product revenue and manufacturing inputs, changes in the softwood lumber duty deposits rates on shipments to the US, stumpage rates, and foreign exchange rates. Other micro-level factors that influence quarterly financial trends include operating rates, shipment volumes, raw material and manufacturing costs, and transactions of a non-recurring nature. We rely primarily on third parties for transportation of our products as well as delivery of raw materials, and any significant or prolonged disruption of services provided by third party carriers may adversely impact our operations, cost structure or shipment volumes.

Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months at our Canadian mills to ensure adequate supply of fibre to our mills during the spring months when logging operations are generally largely curtailed due to unstable road conditions. Operating rates are typically lower, and unit manufacturing costs higher, during the fourth quarter of each year due to planned curtailments related to seasonal holidays.

The application of a “time of delivery factor” to the fixed price provided under the EPA produces a seasonal effect and considerable variability on quarterly revenues from electricity deliveries with the lowest revenues generally generated in the second quarter and the highest in the first and fourth quarters of each year. Quarterly electricity revenues can vary up to 30% between the strongest and weakest quarters. As a major portion of the costs of electricity production, as well as interest charges, are fixed in nature, quarterly operating results in the bioenergy segment are expected to reflect the variability in revenues.

The impact on net income of foreign exchange translation gains or losses on US dollar-denominated long-term debt became a significant factor in the fourth quarter of 2018, and to a lesser extent, in the prior quarter during which we completed an agreement for the Credit Facility which is primarily denominated in US dollars.

THREE-YEAR COMPARATIVE REVIEW

(millions of dollars except share and per share amounts, statistical and exchange rate information and lumber prices)	2018	2017	2016
Sales	669.9	469.7	409.3
Net income (loss)	(7.1)	17.0	70.2
Adjusted EBITDA (1)	40.4	46.0	33.6
Net income (loss) per share, basic and diluted	(0.19)	0.67	3.32
Shares outstanding - weighted average (millions)	36.3	25.4	21.2
Total assets	739.2	444.8	365.3
Total long-term debt	285.6	162.3	88.7
Statistics (in millions, other than exchange rate and lumber prices)			
Production - WSPF lumber (MMfbm)	453.5	518.5	525.3
Production - SYP lumber (MMfbm)	202.7	-	-
Shipments - WSPF lumber (Mmfbm)	458.2	512.7	522.1
Shipments - SYP lumber (Mmfbm)	194.4	-	-
Shipments - wholesale lumber (Mmfbm)	222.9	162.2	161.8
Average exchange rate - US$/Cdn$ (2)	0.772	0.771	0.755
Average WSPF 2x4 #2 & Btr lumber price (US$) (3)	$480	$401	$304
Average WSPF 2x4 #2 & Btr lumber price (Cdn$) (4)	$621	$520	$403
Average SYP 2x4 #2 & Btr lumber price (US$) (5)	$500	$433	$408
Average SYP 2x4 #2 & Btr lumber price (Cdn$) (4)	$648	$563	$541
Reconciliation of adjusted EBITDA to Net Income (Loss)			
Net income (loss)	(7.1)	17.0	70.2
Add: Finance costs	17.4	7.6	9.1
Amortization	26.3	18.3	18.1
Deferred income tax expense (recovery)	(5.0)	3.1	-
EBITDA (6)	31.6	46.0	97.4
Less: Gain on sale of asset	-	-	(48.0)
Less: Gain on revaluation	-	-	(19.2)
Less: Net proceeds from business interruption insurance	-	-	(2.5)
Add: Impairment of property, plant and equipment	-	-	5.8
Add: Foreign exchange translation loss on long-term debt	8.8	-	-
Adjusted EBITDA (1) (7)	40.4	46.0	33.6

(1) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, gains or losses from asset sales, disposals or revaluation, the net proceeds from our business interruption insurance settlement and foreign exchange translation gains or losses on long-term debt.
(2) Source: Bank of Canada, www.bankofcanada.ca.
(3) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.
(4) Average WSPF 2x4 #2&Btr and SYP 2x4 #2 lumber prices (US$) divided by average exchange rate.
(5) Source: Random Lengths Publications Inc. - Southern Yellow Pine Westside, per thousand board feet.
(6) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.
(7) May not total exactly due to rounding.

Discussion of 2017 Results Compared to 2016

Revenues were $469.7 million in 2017 compared to $409.3 million in 2016. The 16% growth in lumber segment revenues reflected higher sales realizations from stronger longer prices partially offset by a modest decline in Conifex produced lumber shipments and a 2% appreciation of the Canadian dollar. Bioenergy segment revenues were generally consistent year-over-year.

We recorded operating income of $31.4 million in 2017 compared to $18.2 million in 2016. Lumber segment operating earnings, which included CV and AD duty deposits expense on exports to the US of $9.9 million, more than doubled year-over-year to $31.4 million. The improvement was primarily due to stronger sales realizations on higher lumber prices. Bioenergy segment operating earnings improved by $1.0 million in 2017, excluding income from the settlement of our business interruption insurance claim of $2.5 million recorded in 2016.

We recognized deferred income tax expense of $3.1 million through net income in 2017. No income tax expense was recorded in 2016 due to the offset of previously unrecognized deferred income tax assets.

Net income for the year ended December 31, 2017 was $17.0 million or $0.67 per diluted share compared to normalized net income of $6.3 million or $0.30 per diluted share for the prior year. In 2016, we recorded unusual or non-recurring items which totaled $63.9 million comprised of a gain on sale of assets of $48.0 million, a net gain on revaluation of certain assets of $13.4 million, and income from settlement of our business interruption insurance claim of $2.5 million. Including these unusual items, net income was $70.2 million, or $3.32 per diluted share for 2016. Net income in 2017 was adversely impacted by negative year-over-year variances in foreign exchange translation loss of $0.9 million and loss from lumber derivative instruments of $2.1 million.

Adjusted EBITDA was $46.0 million for 2017, an improvement of 37% from $33.6 million reported for 2016.

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FOURTH QUARTER RESULTS

Selected Financial Information

(millions of dollars except share and per share amounts and exchange rate information)	Q4 2018	Q3 2018	Q4 2017
Sales by Segment			
Lumber	148.6	176.0	124.5
Bioenergy	8.0	6.1	8.2
	156.6	182.1	132.7
Operating Earnings (Loss) by Segment			
Lumber	(15.6)	9.3	13.9
Bioenergy	3.0	2.8	2.9
Corporate and other unallocated items	(2.6)	(2.0)	(2.1)
	(15.2)	10.1	14.7
Adjusted EBITDA by Segment			
Lumber	(7.7)	17.7	15.5
Bioenergy	4.7	3.5	4.5
Corporate and other unallocated items	(3.0)	(4.9)	(2.5)
	(6.0)	16.3	17.5
Net income (loss)	(23.1)	4.3	8.0
Net income (loss) per share - basic and diluted	(0.49)	0.09	0.30
Shares outstanding - weighted average (millions)	46.6	45.3	26.4
Average exchange rate - US$/Cdn$ (1)	0.757	0.765	0.787
Reconciliation of adjusted EBITDA to Net Income (Loss)			
Net income (loss)	(23.1)	4.3	8.0
Add: Finance costs	6.7	6.5	1.6
Amortization	9.3	7.0	4.8
Deferred income tax expense (recovery)	(10.2)	1.0	3.1
EBITDA (2)	(17.3)	18.8	17.5
Add: Foreign exchange (gain) loss on long-term debt	11.3	(2.5)	-
Adjusted EBITDA (3)	(6.0)	16.3	17.5

(1) Source: Bank of Canada, www.bankofcanada.ca.
(2) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.
(3) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, and foreign exchange translation gains or losses on long-term debt.

Revenues were $156.6 million in the fourth quarter of 2018, $182.1 million in the previous quarter and $132.7 million in the fourth quarter of 2017. The revenue variability was primarily attributable to the lumber segment as bioenergy segment revenues were relatively similar in the comparative quarters.

We recorded an operating loss of $15.2 million in the fourth quarter of 2018 compared to operating earnings of $10.1 million in the previous quarter and $14.7 million in the same quarter last year. Compared to the previous quarter, the variance in lumber segment operating results was mostly attributable to lower sales realizations due to a steep decline in quarter-over-quarter lumber prices which outweighed the benefits of higher shipment volumes. Compared to the fourth quarter of 2017, lumber segment operating results were adversely impacted by lower sales realizations, higher softwood lumber duty deposits expense, and log costs and lower operating rates at our BC mills, and higher amortization expense primarily related to the addition of the US operations.

We recorded a foreign exchange loss on long-term debt of $11.3 million in the fourth quarter of 2018 compared to a gain of $2.5 million in the previous quarter due to the relative depreciation of the Canadian dollar at the close of the fourth quarter.

We recognized deferred income tax recovery of $10.2 million in the fourth quarter of 2018 and deferred income tax expense of $1.0 million in the previous quarter and $3.1 million in the fourth quarter of 2017.

We recorded a net loss for the current quarter of $23.1 million or $0.49 per diluted share. We recorded net income of $4.3 million or $0.09 per diluted share in the previous quarter and $8.0 million or $0.30 per diluted share in the fourth quarter of 2017.

Adjusted EBITDA was negative $6.0 million for the fourth quarter of 2018 compared to adjusted EBITDA of $16.3 million in the previous quarter and $17.5 million for the fourth quarter of 2017.

Operating Results by Business Segment

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices)	**Q4 2018**	**Q3 2018**	**Q4 2017**
Sales - Lumber - Conifex produced	98.5	118.3	81.0
- Lumber - wholesale	30.6	37.8	33.0
- By-products	15.7	14.8	6.5
- Logistic services	3.8	5.1	4.0
Total Sales	148.6	176.0	124.5
EBITDA (1)	(7.7)	17.7	15.5
Amortization	7.4	6.4	3.2
Gain (loss) on derivative financial instruments	0.5	2.0	(1.6)
Operating income (loss)	(15.6)	9.3	13.9
Statistics (in millions, other than exhange rate and lumber prices)			
Production - WSPF lumber(MMfbm)	93.5	104.0	129.9
Production - SYP lumber(MMfbm)	95.1	82.6	-
Shipments - WSPF lumber (MMfbm)	99.9	111.8	138.2
Shipments - SYP lumber (MMfbm)	94.7	75.8	-
Shipments - wholesale lumber (MMfbm)	41.2	40.4	45.4
Average exchange rate - US$/Cdn$ (2)	0.757	0.765	0.787
Average WSPF 2x4 #2&Btr lumber price (US$) (3)	$327	$482	$462
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (4)	$432	$630	$588
Average SYP 2x4 #2&Btr lumber price (US$) (5)	$419	$469	$438
Average SYP 2x4 #2&Btr lumber price (Cdn$) (4)	$553	$613	$557

(1) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.
(2) Source: Bank of Canada, www.bankofcanada.ca.
(3) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.
(4) Average SPF 2x4 #2&Btr and SYP Westside 2x4 #2 lumber prices (US$) divided by average exchange rate.
(5) Source: Random Lengths Publications Inc. - Southern Yellow Pine Westside, per thousand board feet.

Compared to the previous quarter, a 32% decline in US dollar-denominated WSPF 2x4 #2 & Btr prices, nominally offset with a slightly weaker Canadian currency, resulted in a 31% or $198 per thousand board feet fall in average Canadian dollar-denominated benchmark lumber prices in the fourth quarter of 2018. Benchmark SYP prices weakened by 10% or $60 per thousand board feet measured in Canadian dollars.

Quarter-over-quarter revenues from Conifex produced lumber decreased by 17% due primarily to lower sales realizations as overall shipments improved by 4% to 195 million board feet. Growth in shipments from our US mills, which totaled 95 million board feet and represented a quarter-over quarter increase of 25%, more than offset an 11% reduction in shipments from our BC mills. The variance in shipment volumes generally reflected variability in production volumes and reduction of lumber inventories at our US mills. A decline in unit sales realizations of 20% was mostly due to lower commodity lumber and decking prices. Wholesale lumber revenues fell by 19% due largely to lower sales realizations as shipments remained steady at approximately 41 million board feet.

Production volumes of approximately 189 million board feet during the fourth quarter of 2018 represented a modest improvement from the previous quarter due to a 15% production increase from our US mills which was partially offset by a 10% reduction at our BC mills. Our BC mills' results reflect reduced annualized operating rates of 69% in the fourth quarter of 2018 and 77% in the previous quarter due primarily to the temporary curtailments at the FSJ Mill and seasonal holiday downtime. Annualized operating rates at our US mills approached 70% in the fourth quarter of 2018 compared to 60% in the prior quarter as second shift production, added in August 2018, continued to ramp up at the El Dorado Mill and Glenwood Mill.

Unit log costs at our BC mills were generally consistent quarter-over-quarter as inflation on log costs was mostly offset by improved recoveries. Unit log costs at the US mills reflected a 6% improvement over the prior quarter. Overall operating costs in the second half of 2018 continued to be challenged by lower operating rates as well as the additional costs associated with training, maintenance and ramping up of second shifts at our Arkansas mills.

The decline in lumber prices throughout the second half of 2018 resulted in an inventory write down of $1.4 million in the fourth quarter and $2.6 million in the third quarter.

We expensed CV and AD duty deposits of $3.8 million in the fourth quarter of 2018 and $6.4 million in the previous quarter. The duty deposits were based on a combined rate of 20.23%.

We recorded realized and unrealized gains on lumber future contracts of $0.5 million in the fourth quarter of 2018 and $2.0 million in the prior quarter.

Compared to the fourth quarter of 2017, US dollar-denominated WSPF 2x4 #2 and Btr declined by 29% and the Canadian currency weakened by 4% in the fourth quarter of 2018. Average Canadian dollar-denominated benchmark lumber prices fell by 26% or $156 per thousand board feet.

Quarter-over-quarter revenues from Conifex produced lumber were 22% higher and mostly reflected an increase in shipments of 41% partially offset by a decrease in unit sales realizations of 14%. Shipments from our BC mills mirrored lower production volumes and fell by 28%. The addition of shipments from our US mills accounted for the overall higher shipment volumes. A decrease in wholesale lumber revenues of 7% was generally attributable to a 2% improvement in unit sales realizations outweighed by a 9% reduction in shipment volumes.

An increase in by-products revenue of 143% compared to the fourth quarter of 2017 was attributable to improved prices for wood chips at our BC mills and the addition of shipments from our US mills.

The improvement in production volumes of 45% from the fourth quarter of 2017 reflected the addition of operations at the US mills which more than offset lower operating rates at our BC mills which were due mostly to the curtailments at the FSJ Mill.

Compared to the fourth quarter of 2017, unit log costs at our BC mills increased by 23% due primarily to higher market based stumpage and purchased log costs. Unit cash conversion costs were higher at our BC mills and generally reflected the lower operating rates.

We recorded an inventory write down of $1.4 million in the fourth quarter of 2018. There were no inventory valuation adjustments in the same quarter last year. An increase in depreciation expense of $4.2 million was primarily attributable to our US operations.

We expensed CV and AD duty deposits of $3.8 million in the fourth quarter of 2018 and $1.9 million in the fourth quarter of 2017, based on combined duty deposit rates of 20.23% and 6.67%, respectively.

We recorded realized and unrealized gains on lumber future contracts of $0.5 million in the fourth quarter of 2018 and a loss of $1.6 million in the fourth quarter of 2017.

Lumber segment operating loss was $15.6 million in the fourth quarter of 2018 compared to operating earnings of $9.3 million in the previous quarter and $13.9 million in the same quarter last year.

Bioenergy Segment
Operating Results

(millions of dollars, other than statistical information)	Q4 2018	Q3 2018	Q4 2017
Electricity sales under EPA - GWh	54.6	54.7	55.2
Electricity revenues	8.0	6.1	8.2
EBITDA	4.7	3.5	4.5
Amortization and other	1.7	0.7	1.6
Operating income	3.0	2.8	2.9

The Mackenzie Power Plant sold 54.6 GWh hours of electricity under our EPA with BC Hydro in the fourth quarter of 2018, a level that was generally consistent with each of the comparative quarters and represents approximately 100% of targeted operating rates.

The effective power rate is highest during the first and fourth quarters of each year. Electricity revenues in the current quarter were $8.0 million, an increase of 31% over the previous quarter, which was mostly attributable to higher seasonal rates. Compared to the current quarter, cash operating costs were lower in the previous quarter during which the Mackenzie Power Plant was dispatched for over two months. The variability in amortization expense is largely attributable to the operating status of the power plant as idled components are not depreciated during dispatch periods. Bioenergy segment operating income of $3.0 million in the fourth quarter of 2018 was generally consistent with each of the comparative quarters.

Bioenergy segment EBITDA was $4.7 million in the fourth quarter of 2018, which represented improvements of 34% over the previous quarter and 4% over the fourth quarter of 2017.

OUTLOOK

We believe current lumber prices do not properly reflect fundamental supply and demand factors that are expected to drive lumber pricing through the remainder of 2019 and 2020.

Regarding lumber supply, the interior region of BC is the second largest source of softwood lumber supply to the North American market. Permitted sawtimber harvest levels in the region are in the process of being reduced to long term sustainable levels to adjust for the mountain pine beetle (“MPB”) epidemic. In terms of lumber demand, we expect lumber consumption will continue to grow over the next two years, driven by a continuation of gradual increases in new residential construction and more substantial increases in repair and remodeling demand. We expect the growth in lumber demand will outpace the growth in net new supply, capacity utilization rates will remain elevated, and lumber prices, while remaining volatile, will improve.

Through 2019, we expect sequential quarterly improvements in our lumber production and shipment volumes as operating rates at our BC mills normalize and we continue to ramp up production at our El Dorado and Glenwood mills.

CRITICAL ACCOUNTING ESTIMATES

Management has made certain estimates and judgments that affect the reported amounts and other disclosures in our financial statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are described below.

Valuation of Inventory

We closely monitor conditions that could impact valuation of inventories or otherwise impair our assets. Inventories of logs and lumber products are valued at the lower of average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs for completion and applicable variable selling expenses. Our estimated selling price is based on our order file that exists at balance sheet reporting dates and management's estimate for forecasted sales prices based on supply, demand and industry trends. Prices fluctuate over time and it is probable that market values at the time of eventual sale will differ from our estimates.

Write-downs of inventory cost to net realizable value, if any, are included in cost of goods sold when incurred and reported in the lumber segment operating results. There was a write down of inventory of $4.0 million at December 31, 2018 and $0.8 million at December 31, 2017.

Valuation of Long-Lived Assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assessing the valuation of the affected assets requires us to make judgments, assumptions and estimates. An impairment loss is generally recognized when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of an asset's fair value less costs to sell and value in use.

We review the amortization periods for our manufacturing equipment and machinery to ensure that the periods appropriately reflect anticipated obsolescence and technological change. Current amortization periods for manufacturing equipment range from 5 to 50 years. Timber licences are amortized over 60 years.

Management currently believes that Conifex has adequate support for the carrying value of its long-lived assets based on analysis including anticipated cash flows that result from our estimates of future demand, pricing and production costs, and assuming certain levels of planned capital expenditures. However, should the markets for Conifex's products deteriorate to levels significantly below current forecasts or should capital not be available to fund operations or expenditures, it is possible that we will be required to record further impairment charges.

Net impairment losses and recoveries are reported as a separate line item on the financial statements as non-operating items. The Company did not record any impairment losses or recoveries in 2018.

Amortization costs related to lumber segment assets are included in costs of goods sold and reported in the lumber segment operating results. The Company recorded amortization expense in the lumber segment of $21.1 million in 2018 (2017 - $**13.3** million). Amortization costs related to bioenergy assets are included in cost of goods sold and reported in the bioenergy segment. The Company recorded amortization expense of $5.1 million in 2018 (2017 - $4.9 million) in the bioenergy segment. Amortization costs related to corporate assets are included in selling, general and administration expenses and reported in the corporate segment. The Company recorded amortization expense of $0.1 million in the corporate segment in 2018 (2017 - $0.1 million).

Reforestation Obligation

Timber is harvested under various licences issued by the Province of British Columbia, which include future requirements for reforestation. The future estimated reforestation obligation is accrued based upon the volume of timber cut each period and charged to costs of goods sold in the lumber segment. The estimates of reforestation obligations are based upon various judgments and assumptions. Both the precision and reliability of such estimates are subject to uncertainties and, as additional information becomes known, these estimates are subject to change. The Company accrued $5.8 million in 2018 (2017 - $6.7 million) for future estimated reforestation obligations.

Environmental Remediation Costs

Costs associated with environmental remediation obligations are accrued and expensed when there exists a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Such accruals are adjusted as further information develops or circumstances change. Estimated costs of future expenditures for environmental remediation obligations are discounted to their present value when the amount and timing of expected cash payments are reliably determinable. Accruals for estimated environmental remediation obligations are charged to cost of goods sold in the lumber segment. There were no accruals made in 2018 or 2017.

Deferred Income Taxes

Deferred income tax is provided for using the asset and liability method and recognizes temporary differences between the tax values and the financial statement carrying amounts of balance sheet items as well as certain carry forward items. The Company only recognizes a deferred income tax asset to the extent that the future realization of the tax asset is probable. This is based on our estimates and assumptions as to the future financial performance of the various taxable legal entities.

As at December 31, 2018, the Company recognized deferred income tax assets of $3.8 million and deferred income tax liabilities of $1.9 million and recorded deferred income tax recovery of $5.0 million. As at December 31, 2017, the Company recognized net deferred income tax liabilities of $3.1 million and recorded deferred income tax expense of $3.1 million through net income in 2017. At December 31, 2018, the Company had unused non-capital tax losses carried forward totalling $31.4 million (December 31, 2017: $7.7 million).

Lumber Export Duty Deposits

The current softwood lumber dispute is the fifth such dispute since 1982. In the case of previous disputes, the final duties levied were subject to significant reductions in the periods following the initial application. At this time, we have accrued CV and AD duties at the weighted average “all others” rate designated by the USDOC. These rates are subject to change based on administrative reviews and available appeals. Changes to the rates may be material and our results may be adjusted as new information becomes available. This may include adjustments to amounts already recorded, as well as adjustments to the rates (if any) applicable to future periods. Any adjustments resulting from a change in the final CV and AD duty rates will be made prospectively and recorded in the lumber segment.

CHANGES IN ACCOUNTING POLICIES

The Company adopted IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers effective January 1, 2018. The adoption of these standards had no significant impact on the Company’s consolidated financial statements and no retrospective adjustments were necessary. The Company has adopted the additional disclosure requirements under these standards.

IFRS 9, Financial Instruments
IFRS 9 supersedes International Accounting Standards (“IAS”) 39, Financial Instruments: Recognition and Measurement. The new standard includes amended guidance for the classification and measurement of financial assets. It also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management and contains a new impairment model which could result in earlier recognition of losses.

IFRS 15, Revenue from Contracts with Customers
The Company adopted IFRS 15, Revenue from Contracts with Customers using the full retrospective method. The new standard for revenue replaces IAS 18, Revenue, IAS 11, Construction Contracts, and the related interpretations. The standard provides a new framework to determine the timing of revenue recognition and the measurement of revenue. IFRS 15 requires that revenue be recognized at the transaction price when control of the goods or services is obtained by a customer.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable, and represented amounts receivable for goods supplied, stated net of returns and value added taxes. The Company recognized revenue when the amount could be reliably measured, the significant risks and rewards of ownership were passed to the customer, and collectability was reasonably assured.

ACCOUNTING STANDARDS ISSUED AND NOT YET APPLIED

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2018 and not early adopted

IFRS 16, Leases
In January 2016, the International Accounting Standards Board issued IFRS 16, Leases, which replaces the existing lease accounting guidance. IFRS 16 requires all leases to be reported on the balance sheet unless certain criteria for exclusion are met. IFRS 16 is effective for the year beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 is also adopted at the same time.

The Company will be applying the modified retrospective approach upon adoption of IFRS 16 on January 1, 2019. Under this approach, the right-of-use asset will be initially measured at an amount equal to the lease liability discounted at the Company's incremental borrowing rate. The Company continues to assess the quantitative impact of adoption of this new standard on the Company's consolidated financial statements. Based on the lease information available to date, the adoption of IFRS 16 will not have a significant impact on the Company's consolidated financial statements. The Company will recognize approximately $8.5 million in right-of-use assets under property, plant and equipment on the consolidated balance sheet and approximately $8.5 million of long-term liabilities in connection with the leases for office spaces and equipment, with minimal impact on the Company's consolidated statement of net income.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in, and readers are referred to, the Company's annual information form dated March 5, 2018, and other filings with the Canadian securities regulatory authorities available on SEDAR at www.sedar.com.

Fluctuations in Prices and Demand for and Selling Price of Lumber

Our financial performance principally depends on the demand for and selling price of lumber, which is subject to significant fluctuations. The markets for lumber are highly volatile and are affected by many factors such as North American economic conditions, including the strength of the US housing market, the growing importance of the Asian market, changes in industry production capacity, changes in inventory levels and other factors beyond our control. In addition, unemployment levels, interest rates, the availability of mortgage credit and the rate of mortgage foreclosures have a significant effect on residential construction and renovation activity, which in turn influence the demand for and price of lumber. A decline in demand and a corresponding reduction in prices for our products may adversely affect our financial condition and results of operations.

Level of Indebtedness

As of December 31, 2018, we had approximately $332 million of indebtedness outstanding. We may also incur additional indebtedness in the future. The degree to which we are leveraged on a consolidated basis could have important consequences for us, including, but not limited to:

- our ability to obtain additional financing for working capital, capital expenditures, general corporate and other purposes or to fund future operations may not be available on terms favorable to us or at all;

- a significant amount of our operating cash flow is dedicated to the payment of interest and principal on our indebtedness, thereby diminishing funds that would otherwise be available for our operations and for other purposes;

- increasing our vulnerability to current and future adverse economic and industry conditions;

- a substantial decrease in net operating cash flows or increase in our expenses could make it more difficult for us to meet our debt service requirements, which could force us to modify our operations;

- our leveraged capital structure may place us at a competitive disadvantage by hindering our ability to adjust rapidly to changing market conditions or by making us vulnerable to a downturn in our business or the economy in general; and

- limiting our flexibility in planning for, or reacting to, changes and opportunities in our business and our industry.

Our credit facilities contain restrictive covenants which impose operating and other restrictions on us and our subsidiaries. These restrictions will affect, and in many respects will limit or prohibit, our ability to, among other things, incur or guarantee additional indebtedness, pay dividends or make distributions on capital stock or redeem or repurchase capital stock, make investments or acquisitions, create liens and enter into mergers, consolidations or transactions with affiliates. The terms of our indebtedness also restrict our ability to sell certain assets, apply the proceeds of such sales and reinvest in our business.

Our credit agreements contain covenants that require us to maintain prescribed financial ratios. Failure to comply with such covenants could result in events of default and could have a material adverse effect on our liquidity, results of operations and financial condition. During the fourth quarter of 2018, and subsequently in 2019, we and our lenders amended the Credit Facility to eliminate certain financial covenants until the end of the first quarter of 2020 (see Credit Facility).[6]

Fibre Availability and Cost

Our Canadian sawmills' log requirements are met using logs harvested from our timber tenures, by long-term trade and purchase agreements and by purchases on the open market and through timber sale bids. Currently, the timberlands in which we operate are owned by the Province of British Columbia and administered by the Ministry of Forests. The *Forest Act*, RSBC 1996 c 157 (the (“Forest Act”) empowers the Ministry of Forests to grant timber tenures to producers. The Provincial Chief Forester conducts a review of the AAC for each TSA on a periodic basis, which generally occurs once every five to ten years. This review then provides the basis upon which the AAC for licences issued by the Province of British Columbia under the Forest Act are determined. There are many factors that affect AAC, such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes and environmental and social changes.

The log requirements for our US mills are met by purchasing logs harvested by timberland owners and delivered to the mills. We, along with other industry analysts, believe that our El Dorado, Cross City and Glenwood mills are situated in regions well regarded for availability of high quality sawlogs within cost effective proximity and currently do not anticipate any significant fluctuations in the price, quality or availability of log supply to meet our forecast requirements from our US mills.

We rely on third party independent contractors to harvest timber in areas over which we hold timber tenures. Increases in rates charged by these independent contractors or the limited availability of these independent contractors may increase our timber harvesting costs. Additionally, in order to ensure uninterrupted access to logs harvested from our timber tenures, we must focus on the continuous development of road networks and, in the Mackenzie operating area, the maintenance of remote logging camps and vessels and equipment related to delivery of logs by waterways. In addition, our ability to harvest fibre for use in our operations could be adversely impacted by natural events such as forest fires, severe weather conditions or insect infestations.

Fluctuations in the price, quality or availability of log supply could have a material effect on our business, financial position, results of operations and cash flow.

[6] SM Note: To discuss/consider.

Currency Risk

Our Canadian operations sell a significant majority of their lumber at prices denominated in US dollars or based on prevailing US dollar prices, but nearly all of our Canadian operations' operating costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar reduces the revenue in Canadian dollar terms realized by our Canadian operations from sales in US dollars, which reduces operating margin and cash flow available to fund operations. We are also exposed to the risk of exchange rate fluctuations in the period between sale and payment, which results in significant earnings sensitivity to changes in the Canadian/US dollar exchange rate. Our exposure to currency risk is somewhat mitigated by our US operations as operating costs and expenses are incurred in US dollars.

We do not currently hedge our foreign exchange exposure with financial forward or open contracts, as the Canadian/US dollar exchange rate is affected by a broad range of factors, making future rates difficult to predict.

Liquidity Risk

Liquidity risk is the risk that a company will be unable to meet its financial obligations on a current basis. We manage liquidity risk through regular cash flow forecasting and undertaking appropriate financing activities as required. We intend to finance our planned capital expenditures and scheduled debt payments from existing cash reserves, cash flow from operations, our existing credit facilities and strategic asset dispositions.

Although we believe our actions will result in sufficient liquidity, there can be no assurance that we will be successful or that market forces or competition will not work to offset our actions. The availability of funding, or other sources of capital, is dependent on capital markets at the relevant time and may not be available on acceptable terms. In the event that debt or equity capital is not available on acceptable terms, or at all, in the future, we may need to explore other strategic alternatives. In addition, our credit facilities require us to satisfy certain financial covenants. There can be no assurance that we will be able to meet such covenants under our credit facilities. A failure to meet such covenants could also result in our lenders accelerating some or all of our then outstanding indebtedness, which would have a material adverse effect on our business, financial condition and operating results. A failure to meet our financial covenants could also result in our lenders seeking to enforce their security under such credit facilities, which would materially adversely affect our business, financial condition and operating results.

Competition

Markets for our lumber are highly competitive. Our ability to maintain or improve the cost of producing and delivering products to those markets is crucial. Factors such as cost and availability of raw materials, energy, labour, the ability to maintain high operating rates and low per-unit manufacturing costs and the quality of our final products and customer service all affect earnings. Additionally, our products are sold in markets where we compete against many producers, a number of whom have larger capacity than us, including when measured by the number of mills owned and operated. Many of our competitors have existed for a longer period of time and have significantly greater financial resources than us.

Commodity products have few distinguishing properties from producer to producer, therefore, competition for these products is based primarily on price, which is determined by supply, relative to demand and competition from substitute products. The prices we receive for our products are affected by many factors that are outside of our control and we have little to no influence over the timing and extent of price changes, which can be volatile. Accordingly, our revenues and results from operations may be negatively affected by pricing decisions made by our competitors and by the decision of our customers to purchase products from our competitors.

Risks Related to the Integration of Our US Mills and any Future Acquisitions

Our future performance will depend, in part, on whether we can adequately integrate our US mills with our existing operations in an effective and efficient manner. This process will be complex, time consuming and potentially expensive and will be subject to various risks, including, among others:

- diversion of management's attention from our other businesses;
- difficulty integrating the operations, including financial and accounting functions, sales and marketing procedures, technology and other corporate administrative functions of our combined operations;
- difficulties in managing our expanded operations;
- challenges in attracting and retaining key personnel; and
- coordinating a geographically dispersed organization.

Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in expected revenues and diversion of management's time and energy, which could adversely affect our results of operations, financial condition and cash flows. Further, even if our US mills are integrated successfully, the full anticipated benefits of the mills may not be realized, including the synergies, costs savings or growth opportunities that are expected.

The El Dorado, Cross City and Glenwood mills rely upon purchase agreements for their supply of logs, which are generally subject to log availability and based on market prices. Changes in the log market around the areas of such mills may reduce the supply of logs available to them and increase the cost of log purchases, each of which could affect our results of operation. Additionally, operation of the El Dorado, Cross City and Glenwood mills rely on both skilled and unskilled workers as well as third party services for logging and transportation, for which we will need to compete with other regional operators. Shortages of workers or key services could impair our operations at our US mills by reducing production or increasing costs.

We may seek to acquire additional assets or companies from time to time. Our ability to pursue such acquisitions will depend upon, among other things, management's ability to identify, acquire and develop suitable acquisition targets in both new and existing markets. In pursuing such opportunities, we face competition from other companies having similar growth strategies, many of which may have substantially greater resources than us. Competition for these acquisitions could result in increased acquisition prices, higher risks and a diminished pool of businesses or assets available for acquisition. Although we perform diligence on any businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual condition of these businesses. We may not be able to ascertain the value or understand the potential liabilities of the acquired businesses and their operations until we assume control of the assets and operations of these businesses. Additionally, in order to fund such acquisitions, we may require substantial additional financing involving the sale of equity capital or issuance of other financial instruments, which may include debt. Future issuances of equity capital may have a substantial dilutive effect on existing shareholders. We are not able to predict the future amount of any such issuances or dilution.

Softwood Lumber Trade Dispute

Canadian softwood lumber exports to the US have been the subject of trade disputes and managed trade arrangements for the last several decades. After the expiry of the last trade agreement between Canada and the US in 2015, a group of US lumber producers and timberland owners petitioned the USDOC and the USITC to impose trade sanctions against Canadian softwood lumber exports to the US. The USDOC announced its preliminary determination on CVD and ADD rates in April and June 2017, respectively. On December 28, 2017, the USITC published its notice of final affirmative determination of material injury, which brought into effect the final amended "all other" CVD rate of 14.19% and ADD rate of 6.04%, for a combined rate of 20.23%. The duties are likely to remain in place until and unless some form of trade agreement can be reached between Canada and the US or a final binding determination is made as a result of litigation. Unless the additional costs imposed by duties can be passed to lumber consumers, the duties will increase costs for Canadian producers and, in certain cases, could result in some Canadian production becoming unprofitable. Whether and to what extent duties can be passed along to consumers will largely depend on the strength of demand for softwood lumber, which is influenced by a number of factors.

Like other Canadian forest product companies and the Canadian federal and provincial governments, we deny the US allegations and disagree with the final determinations made by the USDOC and USITC, and collectively continue to aggressively defend the Canadian industry in this trade dispute. The federal government has initiated dispute proceedings with the North American Free Trade Agreement panels and the World Trade Organization.

The emergence of significant demand from China and other export markets in recent years has somewhat reduced our dependence on the US market and the impact of potential cross-border trade disputes. Revenues generated from electricity sales as well as continued lumber shipments from our US mills are expected to provide further sources of cash flow diversification to mitigate the adverse effects of trade sanctions on softwood lumber by the US.

Capital Projects

We undertake ongoing maintenance activities and capital improvement projects at our manufacturing facilities. Capital projects require significant commitment of our financial and other resources, and the results of a project may not be immediately known or assessable. We conduct cost-benefit and other analyses prior to the commencement of each capital project to measure the feasibility and expected benefits of proposed projects against pre-established criteria. Each material capital project is approved by our Board of Directors. We assign experienced project managers to each project and commit other resources as required, and, to date, have employed demonstrated technology. We are subject to numerous risks related to the undertaking of capital projects, including extensive reliance on third party equipment manufacturers and installers, material cost and time overruns, equipment or technology failure, major unplanned disruptions to existing operations and the failure of a completed project to deliver expected benefits. The realization of any of these risks could have a material adverse effect on our business, financial condition and operating results.

Wood Dust Management

The wood products industry and government regulators continue to make the management of combustible wood dust within sawmill manufacturing facilities a high priority. Conifex continues to take steps to mitigate the risks of combustible dust incident in our facilities, including significant capital investment, a formalized wood dust control program, and employee training. Regulatory agencies have implemented various regulatory and inspection initiatives related to wood dust management. Additional regulatory initiatives including stop work conditions within the industry have occurred, and continue to be a possibility.

Transportation Limitations

We rely primarily on third parties for transportation of our products as well as delivery of raw materials, a significant portion of which are transported by railroads, trucks and ships. If any of our third party transportation providers fails to deliver the raw materials or products or to distribute them in a timely manner, we may be unable to sell those products at full value, or at all, or may be unable to manufacture our products in response to customer demand, which could have a material adverse effect on our financial condition and results of operations. In addition, if any of these third parties ceases operations, suffers labour-related or other disruptions or ceases doing business with us, our operations or cost structure may be adversely impacted. From time to time, we may also face shortages of rail cars, trucks, containers, ships or other transportation methods that may limit raw material deliveries to us and product deliveries by us to our customers, which may have a material adverse effect on our business.

Operational Curtailments

From time to time, we may suspend or curtail operations at our sawmills, the Mackenzie Power Plant, or one or more of our logging operations in response to market conditions, environmental risks, workplace safety concerns or other operational issues, including power failure, equipment breakdown, dry forest conditions, adverse weather conditions, labour disruptions and fire hazards. These unscheduled operational suspensions or curtailments could have a material adverse effect on our financial condition and results of operations. Furthermore, pulp and paper mill production curtailments may require sawmills to find other ways to dispose of residual wood fibre and may result in curtailment or suspension of lumber production.

Regulatory Risks

Our operations are subject to extensive general and industry-specific federal, provincial, state, municipal and other local laws and regulations, including those governing forestry, exports, taxes, employees, labour standards, occupational health and safety, waste disposal, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. We are required to obtain approvals, permits and licences for our operations, which may impose conditions that must be complied with. If we are unable to extend or renew, or are delayed in extending or renewing, a material approval permit or licence, our operations or financial condition could be adversely affected. There is no assurance that these laws, regulations or government policy, or the administrative interpretation or enforcement of existing laws, regulations and government policies, will not change in the future in a manner that may require us to incur significant capital expenditures or could adversely affect our operations or financial condition. Failure to comply with applicable laws or regulations, including approvals, permits and licences and new laws and regulations, could result in fines, penalties or enforcement actions, including orders suspending or curtailing our operations or requiring corrective measures or remedial actions.

Reliance on Directors, Management and Other Key Personnel

Our success depends in part on our ability to attract and retain senior management and other key employees. Competition for qualified personnel depends on, among other things, economic and industry conditions, competitors' hiring practices and the effectiveness of our compensation programs. The loss of, or inability to recruit and retain any such personnel could impact our ability to execute on our strategies.

Information Systems Security Threats

We use information technologies ("IT") to assist in managing our operations and various business functions. We rely on various IT to process, store and report on our business and to communicate electronically between our facilities, personnel, customers and suppliers. We also use IT to process financial information and results of operations for internal reporting purposes and to comply with regulatory, legal and tax requirements. We have entered into agreements with third parties for hardware, software, telecommunications and other IT services in connection with our operations. Our operations depend, in part, on how well we and our IT suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, telecommunications failure, hacking, computer viruses, vandalism and theft and other security issues. Our IT systems may also be breached due to employee error, malfeasance or other disruptions. Our operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, misappropriation of sensitive data, delays and/or increases in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact our reputation, business, financial condition and results of operations or subject us to civil or criminal sanctions.

Although we have not to date experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not incur such losses in the future. Our risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. As cyber threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Natural Disasters

Our operations are subject to adverse natural events such as forest fires, severe weather conditions, timber disease and insect infestation and earthquake activity. These events could damage or destroy our physical facilities or our timber supply, and similar events could also affect the facilities of our suppliers or customers. Any such damage or destruction could adversely affect our financial results.

Our timber tenures are subject to risks associated with standing forests, in particular forest fires, wind storms, insect infestations and disease. Procedures and controls are in place to manage such risk through prevention and early detection. Most of the timber that we harvest comes from Crown tenures, and insurance coverage is maintained only for loss of logs due to fire and other occurrences following harvesting. However, this coverage does not extend to standing timber, and there is no assurance that our coverage would be adequate to provide protection against all eventualities, including natural catastrophes.

In addition, our operations may be adversely affected by severe weather including wind, snow and rain that may result in our operations being unable to harvest or transport logs to our sawmills. We are unable to predict the impact of all these factors on our tenures or our forest practices.

While we maintain insurance coverage which we believe is standard in our industry, we cannot predict that all potential insurable risks have been foreseen or that adequate coverage is maintained against known risks. As is common in our industry, we do not insure loss of standing timber for any cause.

Forest Health

The MPB infestation is believed to have largely run its course. However, the MPB infestation's impact on our operations remains uncertain. The potential effects include a reduction in future AAC levels to below current and pre-MPB AAC levels, a diminished grade and volume of lumber recoverable from MPB-killed logs, decreased quality of wood chips produced from such logs and increased production costs. The Chief Forester of British Columbia has begun reducing the AAC's of the MPB-impacted TSAs and we expect this trend to continue in the foreseeable future. The containment or further spread of the MPB infestation will depend on a number of factors including the harvesting of timber in MPB-infested areas and weather conditions.

The Mackenzie TSA and the northeastern portion of the Prince George TSA have recently seen an outbreak of spruce beetle. We therefore expect to shift harvesting into timber stands that are under imminent threat or have a high susceptibility to beetle infestation. Together with the Ministry of Forests and other forest companies in the region, we are working to develop strategies to limit any damage caused by the spruce beetle.

A number of different tactics are being employed to mitigate the spread of the spruce beetle, and the impact on our operations appears to be manageable at this time. However, the timing and extent of the effect on our timber supply, lumber grade and recovery, wood chip quality and production costs by both the MPB and spruce beetle will depend on a variety of factors which cannot be determined at this time with any certainty.

Environment

Our operations are subject to regulation by federal, provincial, state, municipal and local environmental authorities, including industry specific environmental regulations, permits, guidelines and policies relating to air emissions and pollutants, wastewater discharges, solid waste, landfill operations, clean-up of unlawful discharges, dangerous goods and hazardous materials, forestry practices, land use planning, municipal zoning, employee health and safety, site remediation and the protection of endangered species and critical habitat. In addition, as a result of our operations, we may be subject to remediation, clean-up or other administrative orders or amendments to our operating permits, and we may be involved from time to time in administrative and judicial proceedings or inquiries. Future orders, proceedings or inquiries could have a material adverse effect on our business, financial condition and results of operations. Environmental laws and land use laws and regulations are constantly changing. New regulations or the increased enforcement of existing laws could have a material adverse effect on our business and financial condition. In addition, compliance with regulatory requirements is expensive, at times requiring the replacement, enhancement or modification of equipment, facilities or operations. There can be no assurance that we will be able to maintain our profitability by offsetting any increased costs of complying with future regulatory requirements.

We are subject to liability for environmental damage at the facilities that we own or operate, including damage to neighbouring landowners, residents or employees, particularly as a result of the contamination of soil, groundwater or surface water and especially drinking water. The costs of such liabilities can be substantial. Our potential liability may include damages resulting from conditions existing before we purchased or operated these facilities. We may also be subject to liability for any offsite environmental contamination caused by pollutants or hazardous substances that we or our predecessors arranged to transport, store, treat or dispose of at other locations. In addition, we may be held legally responsible for liabilities as a successor owner of businesses that we acquire or have acquired. Our mills have been operating for decades, and we have not done invasive testing to determine whether or to what extent any such environmental contamination exists. As a result, these businesses may have liabilities for conditions that we discover or that become apparent, including liabilities arising from non-compliance with environmental laws by prior owners. Because of the limited availability of insurance coverage for environmental liability, any substantial liability for environmental damage could materially adversely affect our results of operations and financial condition.

We have in place internal programs under which our forestry and manufacturing operations are audited for compliance with environmental laws and accepted standards and with our management systems. Our woodlands operations and the harvesting operations of our key suppliers are third party certified to internationally recognized sustainable forest management standards. Our operations and our ability to sell products could be adversely affected if those operations did or do not, or were perceived by the public as failing to, comply with applicable laws and standards, including responsible environmental and sustainable forestry standards.

Enactment of new environmental laws or regulations or changes in existing laws or regulations might require significant capital expenditures. We may be unable to generate sufficient funds or to access other sources of capital to fund unforeseen environmental liabilities or expenditures.

Stumpage Fees

Substantially all of our log requirements at our Canadian mills are harvested from Crown lands in British Columbia. The Province of British Columbia charges stumpage fees to companies that harvest timber from Crown land. Stumpage fees for a specific harvesting area are based on a competitive Market Pricing System ("MPS") that has been established for the interior region of British Columbia. The stumpage system is complex and the subject of discussion involving, among other things, lumber trade agreements between Canada and the United States. The primary variable in the MPS is log pricing established through an open market auction for standing timber administered by BC Timber Sales. In addition to bid prices, there are a number of operational and administrative factors that will influence an individual stumpage rate for each cutting permit. Stumpage rates are also adjusted quarterly to reflect changes in lumber prices.

Periodic changes in the provincial government's administrative policy can affect the market price for timber and the viability of individual logging operations. There can be no assurance that current or future changes will not have a material impact on stumpage rates.

Aboriginal Claims

Canadian court decisions have recognized the existence of Aboriginal title and rights, which may include title or rights of use to lands historically used or occupied by Aboriginal groups. Aboriginal groups have claimed Aboriginal rights and/or title over a significant portion of British Columbia, and few treaties are in place between the Crown and Aboriginal groups in British Columbia. While certain Aboriginal groups in British Columbia have entered into treaty negotiations with the Crown, such negotiations involve complex issues that may take many years to resolve, if at all, and the results of such negotiations cannot be predicted.

Courts have held that the Crown has an obligation to consult with Aboriginal groups when the Crown has knowledge of either existing rights or the potential existence of Aboriginal title or rights and is contemplating actions that may potentially impact such title or rights. Failure of the Government of British Columbia to adequately discharge its obligations to Aboriginal groups may affect the validity of its actions in dealing with public rights, including the granting of Crown timber harvesting rights.

In 2014, the Supreme Court of Canada (the "SCC") released the *Tsilhqot'in Nation v. British Columbia* in which for the first time the SCC recognized the existence of Aboriginal title over land in British Columbia. The SCC also found that provincial laws of general application may apply to land subject to Aboriginal title, provided that certain conditions are met, including that the laws are not unreasonable, impose no undue hardship and do not deny the holders of such Aboriginal title of certain rights. As a result, future court decisions may be required to determine whether and to what extent provincial laws, including the Forest Act and licences granted by the Provincial Crown thereunder, apply on lands subject to Aboriginal title. While Aboriginal title has not been established or formally recognized in areas overlapping with our forest tenures, there can be no assurance that Aboriginal title will not in the future be recognized over all or any portion of the area covered by our forest tenures. We cannot assure that Aboriginal claims will not in the future have a material adverse effect on our timber harvesting rights, our ability to exercise or renew them or our ability to secure other timber harvesting rights.

Labour Relations

We employ a unionized work force in our sawmilling and power generation operations in Canada. In 2014, we completed new, five-year collective labour agreements with the USW at our FSJ Mill and Mackenzie operations, respectively. The agreements expired on June 30, 2018 and have not been renewed as negotiations remain ongoing. Any failure to negotiate acceptable agreements with the USW for either the FSJ Mill or our Mackenzie operations of the current agreements may result in a strike or work stoppage by the affected employees that could result in lost production and sales, higher costs or supply constraints that could have a material adverse effect on our business. The registration or renewal of the collective agreements or the outcome of wage negotiations could result in higher wages or benefits paid to union members. Accordingly, we could experience a significant disruption to our operations or higher ongoing labour costs, which could have a material adverse effect on our business, financial condition, results of operations or cash flow.

Our work force at the El Dorado, Cross City and Glenwood mills are not unionized.

We also depend on a variety of third parties that employ unionized workers to provide critical services. Labour disputes experienced by these third parties could lead to disruptions at our facilities.

Maintenance Obligations and Facility Disruptions

Our manufacturing processes are vulnerable to operational problems that could impair our ability to manufacture products. We could experience a breakdown in any of our machines or other important equipment, and from time to time, planned or unplanned maintenance outages that cannot be performed safely or efficiently during normal hours of operation. Such disruptions could cause a loss of production, which could potentially have a material adverse effect on our business, financial condition and operating results.

Periodic Litigation

We may from time to time become party to claims and litigation proceedings that arise in the ordinary course of business. Such matters are subject to many uncertainties, and we cannot predict with assurances the outcomes and ultimate financial impacts of them. There can be no guarantees that actions that may be brought against us in the future will be resolved in our favour or that the insurance we carry will be available or paid to cover any litigation exposure. Any losses from settlements or adverse judgments arising out of these claims could be materially adverse to us.

Tax Exposures

In the normal course of business, we take various tax filing positions without the assurance that tax authorities will accept and not challenge such positions. In addition, we are subject to further uncertainties concerning the interpretation and application of tax laws in various operating jurisdictions. We maintain reserves for known estimated tax exposures in all jurisdictions. These exposures are settled primarily through the closure of audits with the jurisdictional taxing authorities.

OUTSTANDING SECURITIES

As at March 26, 2019, the Company had 46,610,175 issued and outstanding common shares, 100,000 options granted, 1,490,671 long-term incentive plan awards and 3,500,000 warrants.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), have designed, or have caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries is made known to them by others within those entities and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within required time periods. The CEO and CFO have also designed, or have caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.
As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings,* management of the Company, under the supervision of the CEO and CFO, conducted an evaluation of the effectiveness of the disclosure controls and procedures and the system of internal control over financial reporting based on the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as at December 31, 2018. Based on the evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective at the financial year end, December 31, 2018.

The CEO and CFO confirm that there were no changes in the controls which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2018.

ADDITIONAL INFORMATION

Additional information about the Company is available on SEDAR at www.sedar.com.